REMARKS

At the outset, the Applicant and the undersigned thank the examiner and her supervisor for the telephonic interview held on August 10, 2005 regarding this application.

In the Office Action, claims 27-39 were rejected under 35 U.S.C. § 101 as being directed to non-statutory subject matter. Claims 27-39 were also rejected under 35 U.S.C. § 103(a) as being obvious based on Macklin et al., "Going Public and the NASDAQ Market," *The NASDAQ Handbook*, 1992 Ed., Chap. 7 (referred to as "Macklin") and the admitted prior art. Applicant traverses the rejections as follows.

Summary of the Invention

Privately held companies typically launch a public stock offering, called an "initial public offering" (or "IPO"), to raise needed capital to expand their businesses. Traditionally, the company mounting the IPO sets an initial price (the "IPO price") at which the stock will be offered to the public. Oftentimes, however, the price at which the shares trade on the open market after the initial offering greatly exceeds the IPO price. This is referred to as the "underpricing problem." The underpricing problem is aptly referred to as a problem because the offering company does not realize the additional capital associated with the enhanced share price of its stock. Rather, the capital raised by the offering company is limited to the number of shares offered at the IPO price (less the underwriter discount) during the subscription stage of the offering. The difference between the aggregate value of the shares after the IPO and the capital raised by the offering company is commonly referred to as "money left on the table", because it represents additional money the company could have raised if the IPO price had better reflected the market demand for the stock.

The present invention presents a solution to underpricing problem. According to embodiments of the present invention, the shares offered by the issuing company as part of the IPO are issued in a number (two or more) of serial (or successive) stages. As such, one offering (e.g., an IPO) with the method of the present invention is conducted over a series of stages. For example, a first portion of the shares is offered by the company in the first stage. Then, after a predisclosed trading interval, the second stage commences, wherein the company issues a second portion of the shares to be offered as part of the IPO, and so on. The trading interval may be, for example, a number of hours, a number of days, etc. (limited, however, by regulatory constraints which may require the company to issue a revised offering prospectus if the trading interval is too long).

The offering price of the shares offered by the company in the second stage may not be the same as the offering price for the shares in the first stage. For example, the offering price for the second stage may be equal to the closing price at the end of the trading interval between the first and second stages, or some percentage of the closing price. In that way, the amount of money left on the table by the issuing company may be reduced. For example, suppose an issuing company plans to issue 10,000,000 shares of its stock to the public in an IPO. With the present invention, it could, for example, issue 5,000,000 in the first stage and issue 5,000,000 in the second stage one day later. If the offering price for the first stage was $10 and the closing price at the end of the first day was $20, the issuing company would collect $150,000,000 in total proceeds from the two offering stages (computed as $10/share times 5,000,000 shares for Stage 1 and $20/share times 5,000,000 shares for Stage 2). In contrast, using conventional IPO structures, the issuing company would only collect $100,000,000 (computed as $10/share times 10,000,000 shares). More than two stages could also be used. Also, other ways of the

determining the offering price for any of the stages may be used, such as a direct public offering, a Dutch auction, or any combination thereof.

Importantly, the particulars of the serially staged offering are disclosed beforehand (e.g., before commencement of the first offering stage) by the issuer so that investors are apprised of the offering structure. This disclosure includes, for example, (1) the number of stages, (2) the time period between each stage, (3) the number of shares issued at each stage, and (4) pricing information for each stage (e.g., the offering price or the method of determining the offering price for the first stage, and how the offering price for the subsequent stages will be determined). These disclosure details distinguish the invention from the conventional capital-raising scenario where a company goes public and then at some later time (e.g., several years) offers more of its shares to the public.

Section 101 Rejections

In the Office Action, the claims were rejected under § 101 because they do "not claim the use of technology in the body of the claims." Office Action at 2. The Office Action explains that the claimed invention "must recite technology" in order to satisfy § 101. Office Action at 3.

Applicant respectfully disagrees with the basis for the § 101 rejections. Independent claim 27 and its dependent claims satisfy § 101 for the following reasons.

First, claim 27 explicitly recites the use of technology. Specifically, it recites that "communications regarding the offering of the shares over the offering stages are made via a computer network." Thus, claim 27 already satisfies the "technological arts" test put forth in the Office Action for determining whether the claimed invention satisfies § 101. Further, the Office Action does not cite any authority for the proposition that there must be a certain level of

technology in the claims. Nor does the Office intimate that the current technological limitations in the claims are not quantitatively sufficient. Thus, the pending claims satisfy § 101 based on the standards set forth in the Office Action.

Second, more fundamentally, the Office is wrong that § 101 imposes a requirement that the claimed invention "must recite technology." The U.S. Supreme Court has stated that Congress intended statutory subject matter under § 101 to "include anything under the sun that is made by man." *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980); *see also Diamond v. Diehr*, 450 U.S. 175, 185 (1981). Given this broad expanse intended by Congress, the Supreme Court has only recognized three specific categories of unpatentable subject matter, "laws of nature, natural phenomena, and abstract ideas." *Diamond v. Diehr*, 450 U.S. at 185; *see also* MPEP § 2106.IV.A. Here, the claimed invention obviously does not fall within any of these three categories. The claimed invention is a "process," which is one of the four enumerated categories of acceptable subject matter in § 101, that provides a useful, concrete and tangible result, namely enhanced revenue for the company going public. *See State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 47 U.S.P.Q.2d 1596, 1601 (Fed. Cir. 1998) (stating that a claimed invention qualifies as statutory subject matter under § 101 if it provides a "useful, concrete and tangible" result).

Third, the *Ex Parte Bowman* case cited in the Office Action is totally irrelevant, both factually and legally, to the present application and should accordingly not be relied upon by the Office in its analysis. In *Ex Parte Bowman,* the Board of Patent Appeals and Interferences rejected a claim under § 101 because it found the invention to be an abstract idea which was "not tied to any technological art, environment, or machine..." *Ex Parte Bowman*, 61 U.S.P.Q.2d 1669, 1671 (Bd. Pat. App. & Int. 2001). However, for the reasons discussed above, the Board's

holding of the Board in *Ex Parte Bowman* is inconsistent with binding precedent from the Supreme Court and the Federal Circuit, which clearly do not impose a "technological arts" requirement. *See e.g., Diamond v. Chakrabarty, supra; Diamond v. Diehr, supra; State Street,* 47 U.S.P.Q.2d at 1600 ("The plain and unambiguous meaning of Section 101 is that any invention falling within one of the four categories of statutory subject matter may be patented, provided it meets the other requirements for patentability set forth in Title 35, i.e., those found in Section 102, 103, and 112, Para. 2."); *AT&T Corp. v. Excel Communications, Inc.*, 50 U.S.P.Q.2d 1447, 1452 (Fed. Cir. 1999) (holding that a claimed process that applies a Boolean principle to produce a useful, concrete, tangible result without pre-empting other uses of a mathematical formula "comfortably falls" within the scope of § 101 even though no "technology" was recited in the body of the claim). *Ex Parte Bowman* consequently should not be applied by the Office to yield results that are inconsistent with the intent of Congress as elaborated by the rulings of the Supreme Court and the Federal Circuit. Indeed, the Board did not even denominate its decision in *Ex Parte Bowman* as a precedential decision. As a result, the case cannot even be cited to the Board as controlling authority. This makes the Office's reliance on the case even more questionable.

Additionally, the present case is factually distinct from *Ex Parte Bowman.* In *Ex Parte Bowman,* the Board stated that the Examination Guidelines for Computer-Related Invention should not be used because the specification and claims in that case where not tied to an "technological art or environment." *Ex Parte Bowman,* 61 U.S.P.Q.2d at 1671. This condition does not hold true for the present application. The specification of the present application expressly states that aspects of the staged offering can occur over communications networks such as the Internet. Similarly, independent claim 27 recites that "communications regarding the

offering of the shares over the offering stages are made via a computer network." Thus, *Ex Parte Bowman* is factually and legally irrelevant to the examination of the present application.

Fourth, that the "technological arts" requirement is inconsistent with the law as set forth by Congress, the Supreme Court and the Federal Circuit is demonstrated by the fact that the Patent Office have issued several patents that recite no "technological art, environment, or machine" in the claims whatsoever, including the following issued U.S. patents:

-- U.S. Pat. 6, 460,021, directed to a debt instrument;

-- U.S. Pat. 6,070,151, directing to a method for creating new securities;

-- U.S. Pat. 6,345,261, directed to a customer loyalty investment program;

-- U.S. Pat. 6,292,788, directed to a method of creating a real estate investment instrument;

-- U.S. Pat. 6,243,688, for converting purchase credit awards for purchases to investments; and

-- U.S. Pat. 6,052,673, directed to an investment management process.

The existence of these duly issued U.S. patents indicates that there is no "technological arts" requirement, or that the Office is selectively applying the requirement on an ad hoc basis.

For the above reasons, Applicant submits that the § 101 rejections of claims 27-39 should be withdrawn.

Applicant has also added new claim 40, which depends from independent claim 27 and states that the claimed method includes "compiling, by a server, purchase requests for the shares from investors." Support for the new claim may be found at the paragraph bridging pages 10-11 of the present application as filed. New claim 40 thereby recites additional technology, i.e., a

server for compiling the purchase requests from the investors. For the reasons discussed above, Applicant submits that claim 40 recites statutory subject matter under § 101.

Section 103 Rejection based on Macklin

Claims 27-39 were rejected as being obvious based on the "seasoning strategy" described at page 103 of Macklin and Applicant's admitted prior art.

Independent claim 27 has been amended to clarify that the step of disclosing the particulars about the offering occurs "in a disclosure statement." Support for this amendment may be found throughout the application as filed, including, for example, page, 6, lines 3-9, page 13, lines 18-23, and Figures 1-3.

Applicant submits that the claims are nonobvious in view of Macklin (and/or applicant's admitted prior art) for the following reasons.

1. The Office is Estopped From Relying on Macklin

The Office is estopped from relying on Macklin as a basis for an obviousness rejection since Applicant once before appealed the rejection and the Office withdrew the rejection in view of Applicant's appeal brief. Specifically, on July 24, 2004, Applicant filed an appeal brief addressing a § 103 rejection based on the same portion of Macklin cited in the presently-outstanding Office Action. The Macklin § 103 rejection was the only outstanding rejection to the claims at the time. In response to applicant's appeal, the Office withdrew the Macklin rejection and instead issued a new rejection (a § 101 rejection). *See* Office Action mailed August 11, 2004.

In November 2004, applicant filed an amendment overcoming the §101 rejection. In response, in an Office Action dated January 27, 2005, the Office withdrew the §101 rejection and

instead issued, among other things, a renewed §103 rejection based on Macklin. This Office Action was prepared by a then-new examiner for the application (the second examiner for this application).

In response to the January 27 Office Action, Applicant filed a response on April 26, 2005. This response also explained why the claims of the present application were patentably distinct from Macklin. In response, the Office issued the currently-outstanding Office Action, yet again rejecting the claims based on the seasoning strategy described in Macklin. This Office Action was issued by yet another new examiner that has been assigned to the application – the third examiner for this application. Inexplicably, the currently-outstanding Office Action states that Applicant's arguments in the April 26 response about Macklin's seasoning strategy are "moot in view of the new ground(s) of rejection," even though the grounds for rejection are exactly the same -- Macklin.

The repeated §103 rejections based on Macklin's seasoning strategy violates MPEP §1208.02, which says that an examiner may only re-open prosecution after appeal to enter *a new ground for rejection*. Applicant has already discharged the §103 Macklin rejection on appeal, and it is fundamentally unfair and prejudicial for the Office to reinstate the rejection. It is also unfair and prejudicial for the Office to not even consider Applicant's arguments in Applicant's April 26 response as moot when then are not moot, but rather directly on point.

Furthermore, the reinstatement of the Macklin §103 rejection following the Office's withdrawal in the appeal violates MPEP §706.04, which says: "Full faith and credit should be given to the search and action of a previous examiner unless there is a clear error in the previous action or knowledge of other prior art. In general, an examiner should not take an entirely new approach or attempt to reorient the point of view of a previous examiner, or make a new search

in the mere hope of finding something." The Office has never attempted to explain why the withdrawal of the rejections based on Macklin in view of Applicant's appeal brief amounted to "clear error."

For these reasons, Applicant submits that the Office is estopped from relying on Macklin's seasoning strategy as a basis for an obviousness rejection since it withdrew the rejections once before when Applicant appealed.[1]

2. <u>The Office is Relying on Impermissible Hindsight</u>

The Office acknowledges that Macklin's seasoning strategy is different from the process recited in claim 27. *See* Office Action at 5. Nevertheless, the Office rejected claim 27 (and its dependent claims) as being obvious in view of Macklin and the admitted prior art, stating:

> It would have been obvious to one or ordinary skill in the art at the time the invention was made to disclose the number of shared offered, when the shares are to be offered, the amount of time between offering stages and pricing information for subsequent portions prior to the offering as suggested by Macklin et al. because to do so would have been the "OBVIOUS INTENDED USE" of the Macklin et al. "SEASONING STRATEGY."

Office Action at 6 (emphasis in original).

This type of obviousness analysis, however, violates the Office's operating procedures on issuing obviousness rejections. To reach a proper determination on obviousness under §103, the Office must step backward in time to a point just before the claimed invention was made. In view of all factual information, the examiner must then make a determination whether the claimed invention "as a whole" would have been obvious at that time to a person of ordinary skill in the art. Although the tendency to resort to "hindsight" based upon Applicants' disclosure

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1 The Office is invited to review Applicant's Appeal Brief, filed July 24, 2004, a copy of which is attached as Exhibit A and incorporated herein by reference.

is often difficult, such hindsight must be avoided. The examiner must put aside the knowledge of the Applicants' disclosure in reaching a determination of obviousness and this legal conclusion must be reached on the basis of the facts gleaned from the prior art and not from the Applicants' disclosure. *See* MPEP §2142.

In order to guard against engaging in impermissible hindsight, the Office has established the concept of a "*prima facie*" case of obviousness. According to MPEP § 2142, a *prima facie* case of obviousness by the Office has three requirements, one of which is that there must be some suggestion or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the reference or to combine reference teachings to arrive at the claimed invention. To that end, the MPEP warns that "the mere fact that references *can* be combined or modified does not render the resultant combination obvious unless the prior art also suggests the desirability of the combination." *See* MPEP § 2143.01 (emphasis in original).

Here, the Office has not identified any rationale for modifying Macklin's seasoning strategy to arrive at the invention of claim 27 other than the conclusory, unsupported (and factually wrong) statement that a company using Macklin's seasoning strategy "would have been inherently capable" and "motivated" to perform the process of claim 27. *See* Office Action at 6. Such conclusory, unsupported statements are classic examples of applying hindsight to conclude that an invention is obvious based on the applicant's disclosure. Accordingly, the Office should withdraw the § 103 rejection until and if it can identify a bona fide rationale for modifying Macklin to arrive at the invention as defined by the claims of the present application.

3. Important Differences Between Macklin and the Claims of the Present Invention are Evidence of Nonobviousness.

The Office is factually wrong when it states that a company using Macklin's seasoning strategy "would have been inherently capable" and "motivated" to perform the claimed process of the present application. *See* Office Action at 6. To the contrary, important differences between Macklin's seasoning strategy and the process of the pending claims point to the nonobviousness of the claims of the present application.

Macklin's "seasoning strategy" consists simply of doing an IPO (whether underpriced or not) and then letting the market determine the value of the company's stock over time (usually at least a year – thus the word "seasoning"), whereupon a seasoned or follow-on public offering of additional stock can be made. As a consequence, in contrast to the process of the present invention, the company will have to incur the costs, risks, and delays of going through a second offering process and a concomitant second SEC registration process. This drawback does not exist with the present invention because it is one offering over successive stages.

More importantly, however, Macklin's seasoning strategy does not provide a solution the underpricing problem for the IPO.[2] The issuing company in Macklin's seasoning strategy still faces the risk that it will leave money on the table in the IPO. These funds can *never* be recovered – not even in a subsequent follow-on offering –and the lost funds may have a detrimental effect on the company going forward.

Macklin's seasoning strategy also exposes the company to the risk of adverse events between the IPO and the follow-on offering. Such adverse events may include negative market

[2] As noted in the IPO literature cited in the Office Action, underpricing is a phenomenon almost entirely restricted to the initial public offering (see Barry et. al., page 60, right side,), and so a seasoning approach or strategy will not help, since seasoning assumes that an initial public offering has already been made.

conditions, negative performance of the company's stock, negative analyst coverage, and/or negative performance by the company itself (which may be precipitated by deficient revenue or cash shortage caused in part by the money left on the table in the IPO). The conditions may depress the amount of revenue recoverable for the company in the follow-on offering or even negate the ability of the company to even do the follow-on offering in certain circumstances. In fact, the company may not even survive until the follow-on offering.

These drawbacks are not experienced with the process of the present invention. Because the present invention uses one offering over several successive stages, and so avoids the risks and costs of a follow-on offering caused by change in material conditions, including market conditions.

In that connection, the Office is incorrect when it states in the Office Action that a company using Macklin's seasoning strategy would be "inherently capable of submitting the paper work for the initial and subsequent offerings at the same time to federal security regulators and motivated to be up front about their intentions to use the 'seasoning strategy' in an effort to avoid possible share holder investor law suits." Office Action at 6. There is no way for the company to know what material events will occur between the first and subsequent offerings. Therefore, there is no way for the company to disclose the material events that will impact the sale of the stock in the subsequent follow-on offering. Thus, it is untrue that a company using Macklin's seasoning strategy would be "inherently capable" and "motivated" to submit the paperwork for the follow-on offering at the time the first offering (i.e., the IPO).

In addition, even if a 'seasoned' follow-on offering could be filed at the time of the initial public offering (which is not possible), such a follow-on offering would a) entail additional legal expense and additional potential liability arising from a second prospectus, and b) not be capable

of providing the benefits of the present invention relating to flexible pricing within the stages of the IPO. Simply put, a seasoned follow-on offering has little or no need for the price discovery mechanisms needed in IPOs, since follow-on offerings tend to be based on 'seasoned' pricing of the stock in the public market.

Finally, the nonobviousness of the process of the present invention is demonstrated by the fact that no company has done an IPO according to the process of the present invention. Indeed from 1977-1987 alone there was an average return of 16.4% for 4,534 IPOs, computed from the offer price to the closing price on the first day of trading (see Christopher B. Barry, et. al., "The Opening Price performance of Initial Public Offerings of Common Stock," Financial Management, Vol. 22, Issue 1, Spring 1993, previously cited by the Office). Since 1990, the U.S. has averaged 35 IPOs per month. *See* <www.financial-gurus.com/investing-rules/3775/Jay-Ritter>. That is an average of 420 per year, or about 5,460 IPOs since the Macklin paper was published in 1992. Yet the underpricing problem continues to remain as an issue facing companies going public. If the invention were obvious in view of Macklin as the Office contends, you would think that at least one company would use a serially-staged offering to address the lingering underpricing problem. The fact that no one has is strong evidence of the nonobviousness of the present invention.

Further, the Office Action (at page 11) states that the seasoning strategy does not define any specific interval between IPO and follow on offering, so that one hour is within the range of "obvious choices" and "note the papers on the theory of 'underpricing' cited in this action to support this choice." A seasoned or follow-on offering, however, has never been and cannot be done within one hour, or even one month, so it cannot be or have been an obvious choice to

anyone. Also, the examiner does not state which papers on the theory of underpricing would 'support this choice' of a one hour seasoned offering.

4. The Issuance of the Hambrecht Patent Demonstrates the Nonobviousness of the Present Invention

The Hambrecht patent (U.S. Pat. 6,629,082, issued on September 30, 2003 and filed on July 6, 1999) is for an "auction system and method for pricing and allocation during capital formation." It recites a method of offering securities which is commonly know as the "Dutch Auction" method. The Hambrecht inventors cite at least one prior art article relating to use of the Dutch Auction in securities auctions. Indeed, the U.S. Treasury has used the Dutch Auction method to sell government securities since 1993, six years before the Hambrecht patent application filing. Essentially, Hambrecht's invention is to apply the Dutch Auction method to the sale of equity securities, rather than debt securities.

If Hambrecht's invention was patentable (and hence nonobvious), then so, by any measure, is the present invention. The Dutch Auction patented by Hambrecht was quite well known in the securities industry. Yet Hambrecht was able to patent the use of a pre-existing method (the Dutch Auction) for a different type of security (equity offerings). In contrast to Hambrecht, the present invention is not the simple application of an established method in the securities business to equities rather than debt. It is the creation of a new method not based on existing methods. The Office believes that follow-on stock offerings ("seasoning") make the present invention "obvious," although almost every characteristic of a follow-on offering is different from the present invention. Among other things, the seasoning strategy *relies on material change* in the market or in the company, *but the present invention is predicated on no such material change* within the offering period that would halt the offering.

For these reasons, Applicant submits that claim 27 and its dependent claims (including new claim 40) are nonobvious in view of the cited prior art and in condition for allowance. *See* MPEP § 2143.03 (stating that if an independent claim is nonobvious, then claims depending therefrom are necessarily nonobvious).

CONCLUSION

In view of the above, Applicant respectfully requests withdrawal of the rejections and allowance of the claims. If the Examiner is of the opinion that the instant application is in condition for disposition other than allowance, the Examiner is respectfully requested to the undersigned attorney at the telephone number listed below in order that the Examiner's concerns may be expeditiously addressed.

Respectfully submitted,

Mark Knedeisen

Date: Sept. 6, 2005

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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant:	Cadoux, Robert	)		
		)	**Examiner:**	Pwu, J.
Serial No.:	09/491,388	)		
		)	**Art Unit:**	3624
Filing Date:	Jan. 26, 2000	)		

Title: A SERIALLY STAGED, INITIAL PUBLIC STOCK OFFERING METHOD

APPLICANT'S APPEAL BRIEF

Mail Stop Appeal Brief - Patents
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Dear Sir:

Applicant for the above-identified patent application submits this brief in accordance with the provisions of 37 C.F.R. §§ 1.191-1.192 in response to the Office Action dated January 27, 2004, and pursuant to the Notice of Appeal filed April 13, 2004.

I. Real Party In Interest

The real party in interest is the applicant, Robert Cadoux.

II. Related Appeals and Interferences

Applicant is not aware of any appeals or interferences that will directly affect or be directly affected by or have a bearing on the decision of the Board of Patent Appeals and Interferences ("Board") in the present case.

III. Status of the Claims

In the final Office Action mailed January 27, 2004 (hereinafter "the Office Action"), claims 1-26 of the present application were rejected as being obvious under 35 U.S.C. § 103(a) over Macklin et al., "Going Public and the NASDAQ Market," The NASDAQ Handbook, 1992 Ed., Chap. 7 (hereinafter "Macklin") in view of Logue, "Handbook of Modern Finance," 1995 Ed. (hereinafter "Logue"). Subsequently, on April 13, 2004, Applicant filed a Notice of Appeal, appealing the rejection of claims 1-26. Thus, each of claims 1-26 stands rejected and subject to this appeal. The text of claims 1-26 is set forth in the Appendix hereto.

IV. Status of Amendments

Applicant filed the Notice of Appeal on April 13, 2004, and there was no amendment filed by the Applicant after the Office Action dated January 27, 2004. Thus, the pending claims are the same as those presented in Applicant's response of October 13, 2003, and as set forth in the Appendix.

V. Summary of the Invention

A. Background

Privately held companies typically launch a public stock offering, called an "initial public offering" (or "IPO"), to raise needed capital to expand their businesses. Traditionally, the company mounting the IPO sets an initial price (the "IPO price) at which the stock will be offered to the public. The IPO price is typically established by an investment banker based on a variety of factors. Oftentimes, however, the price at which the shares trade on the open market after the initial offering greatly exceeds the IPO price. The offering company, however, does not

realize the additional capital associated with the enhanced share price of its stock. Rather, the capital raised by the offering company is limited to the number of shares offered at the IPO price (less the underwriter discount) during the subscription stage of the offering. The difference between the aggregate value of the shares after the IPO and the capital raised by the offering company is commonly referred to as "money left on the table", because it represents additional money the company could have raised if the IPO price had better reflected the market demand for the stock.

In some instances, such as with some of the Internet-related IPOs of the late 1990's, the amount of money left on the table, and hence unavailable to the treasury of the offering company, can be staggering. For example, on December 10, 1999, FreeMarkets.com offered 3.6 million shares (or 10.6 %) of its stock to the public in an IPO at an offering price of $48/share. Through the offering, FreeMarkets.com raised $173 million in capital. However, during the first day of trading, the share price for the stock soared from the IPO price (i.e., $48) to $280. If the company and the IPO underwriter had better anticipated the public demand for the company's stock, the company could have instead raised $1.008 billion. Consequently, the company effectively left $835 million on the table.

In view of the market demand for their stock, companies who have left a great amount of money on the table may launch a secondary offering to raise additional capital. A secondary offering, however, is not an initial offering in which a market for the stock is created. Rather, the share price for a secondary offering is contingent upon prior trading. In addition, the secondary offering may dilute the value of the initially offered stock, thus decreasing the value of the stock held by company shareholders who acquired shares during the initial offering.

B. Summary of the Invention

The present invention presents a solution to this dilemma. According to embodiments of the present invention, the shares offered by the issuing company as part of the IPO are issued in a number (two or more) of serial stages. A first portion is offered by the company in the first stage. Then, after a "predetermined and predisclosed" trading interval, the second stage commences, wherein the company issues a second portion of the shares to be offered as part of the IPO, and so on. The trading interval may be, for example, a number of hours, a number of days, etc. (limited, however, by regulatory constraints which may require the company to issue a revised offering prospectus if the trading interval is too long).

The offering price of the shares offered by the company in the second stage may not be the same as the offering price for the shares in the first stage. For example, the offering price for the second stage may be equal to the closing price at the end of the trading interval between the first and second stages. In that way, the amount of money left on the table by the issuing company may be reduced. For example, suppose an issuing company plans to issue 10,000,000 shares of its stock to the public in an IPO. With the present invention, it could, for example, issue 5,000,000 in the first stage and issue 5, 000,000 in the second stage one day later. If the offering price for the first stage was $10 and the closing price at the end of the first day was $20, the issuing company would collect $150,000,000 in total proceeds from the two offering stages (computed as $10/share times 5,000,000 shares for Stage 1 and $20/share times 5,000,000 shares for Stage 2). In contrast, using conventional IPO structures, the issuing company would only collect $100,000,000 (computed as $10/share times 10,000,000 shares). More than two stages could also be used. Also, other ways of the determining the offering price for the subsequent stages may be used.

Importantly, all of the particulars of the serially staged offering may be disclosed beforehand (e.g., before commencement of the first offering stage) by the issuer so that investors are apprised of the offering structure. This disclosure includes, for example, (1) the number of stages, (2) the time period between each stage, (3) the number of shares issued at each stage, (4) the offering price or the method of determining the offering price for the first stage, and (5) how the offering price for the subsequent stages will be determined.

According to various implementations, the shares to be offered by the issuing company may be subscribed to by underwriters according to the conventional underwriting model or auctioned to subscribers according to a Dutch auction model or a straight (conventional) auction. Also, a combination of these processes or any future pricing techniques may be used. In addition, the shares may be offered electronically, for example, such as via the Internet.

VI. Issues

There is one issue in this appeal: whether claims 1-26 were properly rejected as being obvious under 35 U.S.C. § 103(a) over Macklin in view of Logue.

VII. Grouping of the Claims

The pending claims of the application fall into two groups. Group I, corresponding to claims 1-19, stand or fall together. Group II, corresponding to claims 20-26, stand or fall together. Reasons why the two claim groups are separately patentable are provided below in Section VIII of this brief.

VIII. Argument

A. The Rejection of Independent Claim 1 For Being Obvious is Improper.

1. The Language of Claim 1

Claim 1 is directed to a method for offering shares of stock of a privately-held company as part of an initial public offering. Specifically, claim 1 states:

> 1. A method for offering shares of stock of a privately-held company to the public as part of an initial public offering, comprising:
>
> offering a first portion of the shares of the stock of the initial public offering to public investors at a first price; and
>
> offering a second portion of the shares of the initial public offering to public investors at a second price after a first trading interval of a first predetermined and predisclosed time period after the offering of the first portion, wherein the first portion of the shares and the second portion of the shares are owned by the privately-held company and wherein a pricing procedure for the second portion of the shares is predisclosed prior to the first offering.

Thus, according to the claim language, the initial public offering occurs in at least two stages – a first offering stage and a second offering stage. Moreover, the second offering stage commences a "first trading interval" after the first stage, and the "first trading interval" is of a "predetermined and predisclosed" length. Further, the claim stipulates that the "pricing procedure" for the second offering stage is "predisclosed prior to" the first offering stage.

The current application discloses a number of different pricing procedures that may be used. For example, the application discloses that the share price for the second offering stage may (i) equal the closing price at the end of the first trading interval (see p. 6, lines 15-18), (ii) be a predetermined price (see p. 9, lines 7-8), or (iii) equal a fraction of the closing price at the end

of the first trading interval (see p. 9, lines 9-12). Claim 1 is not limited to any such pricing procedure.

2. **The Rejection of Claim 1 in the Office Action**

In the Office Action, claim 1 was rejected as being obvious over Macklin in view of Logue. Specifically, the Office Action stated that Macklin "teaches a method for offering stock substantially [*sic*] claimed," but that Macklin "does not expressly show offering a plurality of serial offering stages for the purpose of raising capital and reduce market volatility." Office Action at 2-3. The Office Action then stated that, "It is also well known that in the banking industry that a serial staged IPO is similar to a shelf registration…." *Id.* at 3. The Office Action cites no authority for this contention. Nor could it, as there has never been a serially staged IPO to the best of the Applicant's knowledge. Thus, it is unlikely, and indeed inconceivable, that it would be well known in the investment banking industry that a serially staged IPO could be similar to shelf registrations. In fact, as the Office Action concedes, the Macklin reference, entitled "Going Public and the NASDAQ Market," does not mention serially staged initial public offerings. One would think that such a book, dedicated to the topic of going public, would mention a serially staged IPO if it were so well known.[1] With regard to the Logue reference, the Office Action states, referring to pages A2-4, -5 of Logue:

> Logue shows that the offering of a primary offering, a secondary offering or a plurality of serial offering stages for the purpose of raising capital. It is one of the investment banking industry's most basic activity under underwriting.

Office Action at 4.

[1] In addition to being unsupported, the statement that a serially staged IPO is similar to a shelf registration is inaccurate for reasons stated below in this brief.

While the Office Action is correct that Logue mentions primary and second offerings, Logue uses the term "primary offering" to refer to the "purchase of newly issued securities," and uses the term "secondary offering" to refer to an offering of "a large block of securities that are already owned by a large shareholder." Logue at A2-4, -5. Thus, the "secondary offering" in Logue is not an offering of shares of a privately-held company as part of an initial public offering, but rather it is an offering of shares of a large shareholder of the issuing company. Thus, the "secondary offering" referred to in Logue does not raise capital for the issuing company – it raises funds for the shareholders cashing in their shares. Furthermore, Logue also does not teach or suggest that the secondary offering occurs "a predetermined and predisclosed" trading interval after the first offering.

3. The Cited References, Macklin and Logue, Individually and Collectively, Fail to Teach or Suggest All of the Elements of Claim 1.

One of the *prima facie* elements of a case of obviousness under 35 U.S.C. § 103(a) is that the cited reference, or references when combined (as is the case here), must teach or suggest all of the claim elements. *See* MPEP § 2142. In this case, the cited references, Macklin and Logue, fail to teach or suggest all of the elements of claim 1.

Applicant agrees with the Office that that both Macklin and Logue teach a primary offering (or IPO) where shares of a privately held company are offered to public investors. This is the conventional IPO technique. Macklin and Logue, collectively and individually, however, fail to teach or suggest several limitations of claim 1. Specifically, the combination of Macklin and Logue fails to teach or suggest an IPO offering structure having two serial stages, where the second stage commences a "first trading interval" after the first stage, and where the "first trading interval" is of a "predetermined and predisclosed" length. Also, the combination of

Macklin and Logue fails to teach or suggest the claim limitation that the "pricing procedure" for the second offering stage is "predisclosed prior to" the first offering stage

The Office Action relies on a single sentence from the Macklin reference as teaching these features of claim 1. The sentence of Macklin relied upon by the Office reads as follows:

> As the stock prices appreciate due to improving market conditions or as the company builds credibility with investors, the company can structure a larger follow-on offering at a higher valuation.

See Office Action at 3 (citing Macklin at 103).

This sentence (or any other portion of Macklin) fails to teach or suggest all of the limitations of claim 1, including the following:

- ***First***, the follow-on offering discussed in Macklin is not part of an initial public offering, as required by claim 1. Rather, it is a second offering after the company has already become public. Indeed, the cited sentence talks about "structuring" the follow-on offering once the IPO has been completed. *See* Macklin at 103. In addition, in the example given in the Macklin reference, Macklin states that Octel Communications Corporation "*completed* the first technology IPO" and then subsequently "completed a follow-on offering." *Id.* (emphasis added). In other words, Macklin makes clear that the so-called follow-on offering is performed after the IPO is *completed.* Thus, Applicant submits it is clear from the Macklin reference that the follow-on offering referred to in Macklin is not part of an IPO.

- ***Second***, even assuming that the follow-on offering in Macklin constitutes the second offering in claim 1 (an assumption to which the Applicant does not agree, as stated above), Macklin does not disclose that the second offering occurs a

predetermined and predisclosed time period (i.e., the "first trading interval") after the first offering, as recited in claim 1. Indeed, Macklin gives no indication, and therefore fails to teach or suggest, that potential investors are apprised of the timing of the follow-on offering prior to the initial offering. The timing feature is simply not discussed in Macklin.

- ***Third***, even assuming again that the follow-on offering in Macklin constitutes the second offering in claim 1, the Macklin reference does not disclose that a pricing procedure for the second offering is disclosed prior to the initial offering, as recited in claim 1. Macklin is simply silent on this feature.

Moreover, Applicant notes that the Office Action does not identify any portion of the Macklin reference as teaching or suggesting these features of claim 1.

Further, the Logue reference is of no aid to the Office in making out a *prima facie* case of obviousness because Logue fails to teach or suggest these same three features of claim 1. As mentioned above, the "secondary offering" disclosed in Logue constitutes shares owned by a large shareholder, not shares owned by the issuing company. Moreover, like Macklin, Logue does not disclose or suggest that the secondary offering occurs "a predetermined and predisclosed" time period after the first offering stage. Also like Macklin, Logue fails to teach or suggest that the pricing procedure for the second offering is disclosed prior to the initial offering. Logue too is silent with respect to these limitations of claim 1.

Nor does the Office identify any portion of the Logue reference that discloses these features of claim 1. Rather, the Office Action merely states the Logue reference "shows that the offering of a primary offering, a secondary or a plurality of serial offering stages for the purpose of raising capital [*sic*]." The fact that a second offering "is one of the investment banking's most

basic activity under underwriting," is immaterial to the patentability of claim 1 because such a secondary offering, as mentioned before, (i) is not part of an initial public offering, (ii) does not occur a predetermined and predisclosed time period after the first offering, and (iii) the pricing procedure for the second offering is not disclosed prior to the initial offering.

Therefore, Applicant submits that the combination of Macklin and Logue fails to teach or suggest every element of claim 1. For at least this reason, the Office has failed to establish a *prima facie* case of obviousness under 35 U.S.C. § 103(a) with respect to claim 1. Accordingly, Applicant submits that the rejection of claim 1 (as well as claims 2-19) be reversed by the Board.

4. A Serially Staged IPO is not Similar to a Shelf Registration.

Applicant submits that the statement in the Office Action that a serially staged IPO is similar to a shelf registration is inaccurate. Shelf registration was permitted by the SEC in 1982 to reduce the transaction costs and delays of securities offerings by large companies that periodically and regularly offer securities. The sale of securities (mostly bonds) by this method is no different from follow-on offerings commonly made by public companies, except that after the disclosure required to put the securities "on the shelf," no additional disclosure filing needs be made for those securities at the time of actual sale, and the costs of underwriting may be reduced.

Currently, a shelf registration can only be made by a company which is *already public*, and which has outstanding publicly held securities of at least $150 Million, and which makes quarterly and other required on-going disclosures of material events and finances to the SEC. It is these quarterly filings that constitute the ongoing disclosure about the company necessary to offer the securities (apart from the initial disclosure about the securities themselves which is necessary to put them on the shelf). In essence, because of these on-going filings, it is deemed that the company has already made disclosure and the only thing the company must do to sell

securities is to adequately describe them (e.g., preferred stock of a certain kind, or debt of a certain priority and covenants) – and so put them on the shelf. When the company decides to "take down" securities from the shelf and sell them, the company only needs to price them and find buyers (technically, it prices and finds buyers in advance of an actual "take down" or sale), and not go through any further steps and delays with the SEC. Under current rules, securities can stay on the shelf for only two years.

Thus, shelf registration is just a streamlined way of making regular offerings by existing large companies that are already public. No such mechanism exists for IPO stock (whereby a company actually becomes public). In that connection, shelf registrations differ from the claimed invention in that shelf registrations do not involve the offering of shares of privately held companies *as part of an IPO*. Rather, shelf registrations are only available for publicly held companies. Also, the sale of "on-the-shelf" shares can occur at any time whereas, according to claim 1, the second stage occurs a "predetermined and predisclosed" time period after the first stage. Finally, shelf registrations are different from the claimed invention because the pricing procedures for the subsequent offerings are not "predetermined and predisclosed" prior to the first stage.

To demonstrate the difference between shelf registration and claim 1, it should be recognized that the method of claim 1 may be used by a company doing an IPO and thereafter the company may take down shares from the shelf as part of a shelf registration offering. That is, the initial offering may be performed pursuant to the method of claim 1 and the subsequent shelf registration offerings, with the company already public, may be done pursuant to the conventional shelf registration technique. The shares taken down from the shelf, however, are not part of claim 1 because, as mentioned previously, (i) they are offered by an already public

company (the offering stages of the IPO in claim 1 having been completed), (ii) the off-the-shelf shares are not offered a "predetermined and predisclosed" time period later, and (iii) the pricing procedure for the off-the-shelf shares is not predetermined and predisclosed prior to the first stage.

B. The Rejection of Claim 20 For Being Obvious is Improper.

1. Claim 20 is Separately Patentable from Claim 1.

Claim 20 depends from claim 1 and recites:

> 20. The method of claim 1, further comprising, prior to offering the first portion of the shares:
>
> auctioning shares of the stock to at least one potential subscriber; and
>
> awarding an allotment of the shares to the potential subscriber at a first share price dependent upon a bid price of the potential subscriber during the auctioning for a quantity of the shares.

Because the combination of steps recited in claim 20 (including the steps recited in base claim 1) are not taught or suggested in the cited references, claim 20 (as well as claims 21-26 depending therefrom) are separately patentable from claim 1 (and claims 2-19).

2. The Rejection of Claim 20

In the Office Action, claim 20 was rejected for the same reason as claim 1, namely for being obvious under 35 U.S.C. § 103(a) in view of Macklin and Logue. No separate reasoning was provided in the Office Action with respect to claim 20.

3. The Cited References, Macklin and Logue, Individually and Collectively, Fail to Teach or Suggest All of the Elements of Claim 20.

Because claim 20 depends from claim 1, claim 20 inherently includes all of the limitations of claim 1. Therefore, claim 20 is not obvious in view of Macklin and Logue for the

reasons set forth above with respect to claim 1. Claim 20, however, is nonovbious over the cited references for an additional reason. Specifically, neither Macklin nor Logue teach or suggest the limitations of claim 20, i.e., "auctioning shares of the stock to at least one potential subscriber" and "awarding an allotment of the shares to the potential subscriber at a first share price dependent upon a bid price of the potential subscriber during the auctioning for a quantity of the shares." The Office Action does not disclose where Macklin or Logue suggest these limitations. In fact, the Office Action does not even address the limitations of claim 20.

For at least this additional reason, Applicant submits that the combination of Macklin and Logue fails to teach or suggest every element of claim 20. As a result, the Office has failed to establish a *prima facie* case of obviousness with respect to claim 20. Accordingly, Applicant submits that rejection of claim 20 (as well as claims 21-26 depending therefrom) be reversed by the Board.

IX. Conclusion

For the foregoing reasons, Applicant submits that the rejections of claims 1-26 in the Office Action are improper and should be reversed.

Respectfully submitted,

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APPENDIX - CLAIMS ON APPEAL

1. A method for offering shares of stock of a privately-held company to the public as part of an initial public offering, comprising:

offering a first portion of the shares of the stock of the initial public offering to public investors at a first price; and

offering a second portion of the shares of the initial public offering to public investors at a second price after a first trading interval of a first predetermined and predisclosed time period after the offering of the first portion, wherein the first portion of the shares and the second portion of the shares are owned by the privately-held company and wherein a pricing procedure for the second portion of the shares is predisclosed prior to the first offering.

2. The method of claim 1, wherein offering the second portion of the shares includes offering the second portion of the shares at a second price equal to the first price.

3. The method of claim 1, wherein offering the second portion of the shares includes offering a second portion of the shares equal in number to the first portion of the shares.

4. The method of claim 1, wherein offering the second portion of the shares includes offering the second portion after a first trading interval of at least one hour after the offering of the first portion.

5. The method of claim 4, wherein offering the second portion of the shares includes offering the second portion of the shares after a first trading interval of at least one day after the offering of the first portion.

6. The method of claim 1, wherein offering the second portion of the shares includes offering the second portion of the shares at a second price equal to a closing price of the first portion of the shares at an end of the first trading interval.

7. The method of claim 1, wherein offering the first portion of shares of the stock at a first price includes offering the first portion of the shares to a public investor via a computer network.

8. The method of claim 1, wherein offering the second portion of the shares at a second price includes offering the second portion of the shares to a public investor via a computer network.

9. The method of claim 1, further comprising offering a third portion of the shares at a third price after a second trading interval of a second predetermined time period after the offering of the second portion of the shares.

10. The method of claim 9, wherein offering the third portion of the shares includes offering the third portion of the shares after a second trading interval of a second predetermined time period equal in length to the first predetermined time period.

11. The method of claim 9, wherein offering the third portion of the shares includes offering the third portion of the shares at a third price equal to a closing price of the first and second portions of the shares at an end of the second trading interval.

12. The method of claim 9, wherein offering the third portion of the shares includes offering a third portion of the shares equal in number to the second portion of the shares.

13. The method of claim 12, wherein offering a third portion of the shares equal in number to the second portion of the shares includes offering a third portion of the shares equal in number to the first portion of the shares.

14. The method of claim 9, wherein offering the third portion of the shares includes offering the third portion of the shares to a public investor via a computer network.

15. A method for offering shares of stock of a privately-held company to the public as part of an initial public offering, comprising:

offering a plurality of portions of the shares of the stock of the initial public offering to public investors over a plurality of serial offering stages, such that the offering stages are separated by at least one trading interval of a predetermined and predisclosed time period; and

trading at least one portion of the shares during the at least one trading interval, wherein the plurality of portions of the shares are owned by the privately-held company and wherein a pricing procedure for the portions of the shares offered in the offering stages subsequent to the

first offering stage is predisclosed prior to offering a first of the plurality of portions in the first offering stage.

16. The method of claim 15, wherein offering a plurality of portions of shares includes offering a plurality of equal portions of the shares over the plurality of serial offering stages.

17. The method of claim 15, wherein offering a plurality of portions of shares includes:

offering a first portion of the shares at a first price; and

offering a second portion of the shares at a second price after a first trading interval of a first predetermined time period after the offering of the first portion of the shares, wherein the second price is equal to a closing price of the first portion of the shares at an end of the first trading interval.

18. The method of claim 17, wherein offering a plurality of portions of shares further includes offering a third portion of the shares at a third price after a second trading interval of a second predetermined time period after offering of the second portion of the shares, wherein the third price is equal to a closing price of the first and second portions of the shares at an end of the second trading interval.

19. The method of claim 15, wherein offering a plurality of portions of shares of the stock over a plurality of serial offering stages includes offering at least one of the plurality of portions of shares to a public investor via a computer network.

20. The method of claim 1, further comprising, prior to offering the first portion of the shares:

auctioning shares of the stock to at least one potential subscriber; and

awarding an allotment of the shares to the potential subscriber at a first share price dependent upon a bid price of the potential subscriber during the auctioning for a quantity of the shares.

21. The method of claim 20, wherein awarding the allotment of the shares to the potential subscriber at a share price dependent upon a bid price of the potential subscriber includes awarding the allotment of the shares to the potential subscriber at a share price equal to the bid price of the potential subscriber for the quantity of the shares.

22. The method of claim 20, wherein:

auctioning shares to be publicly offered to at least one potential subscriber includes auctioning the shares to be publicly offered to a plurality of potential subscribers; and

awarding an allotment of the shares includes awarding an allotment of the shares to certain of the plurality of potential subscribers based on the auctioning.

23. The method of claim 22, wherein auctioning the shares to the plurality of potential subscribers includes auctioning the shares to the plurality of potential subscribers via a computer network.

24. The method of claim 22, wherein awarding an allotment of the shares to certain of the plurality of potential subscribers includes awarding all of the shares to be publicly offered to one of the plurality of potential subscribers.

25. The method of claim 22, wherein awarding an allotment of the shares to certain of the plurality of potential subscribers includes:

awarding a first allotment of the shares to a first potential subscriber at a share price dependent upon a bid price of the first potential subscriber for a first amount of the shares; and

awarding a second allotment of the shares to a second potential subscriber at a share price dependent upon a bid price of the second potential subscriber for a second amount of the shares.

26. The method of claim 22, wherein awarding an allotment of the shares to certain of the plurality of potential subscribers includes awarding an allotment of the shares to certain of the plurality of potential subscribers at a share price equal a lowest bid price among the potential subscribers at which all the shares to be publicly offered are subscribed to.

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CERTIFICATE OF SERVICE

I hereby certify that the original and two (2) copies of the foregoing APPLICANT'S APPEAL BRIEF is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service under 37 CFR 1.10 on the date indicated below and is addressed to:

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